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SUBJECT: UKRAINE: OVERTURN OF PRESIDENTIAL VETOS MARKED BY
INTER-FACTIONAL CONFLICT

REF: KYIV 1310

Classified By: CDA James D. Pettit for reasons 1.4 (b) & (d)

Summary

¶1. (C) During the course of the August 21 extraordinary Rada session, characterized by initial squabbling, Party of Regions (PoR) and Bloc Yulia Tymoshenko (BYuT) factions were able to find compromises that suited each other's political needs. Both Ministry of Finance and IMF officials have privately expressed concern that the EURO 2012 amendments to the State Budget Law earmark future profits from the budget, a move the Ministry of Finance told us will most certainly be inflationary. In overturning the presidential veto on the amended Presidential Election Law, the Rada acted to dismiss each of the President's objections/proposals without debate. End Summary.

Bottom Line Politics as Usual

¶2. (SBU) During an August 21 extraordinary session, the Ukrainian Parliament (Rada) voted to overturn President Yushchenko's vetoes of amended legislation dealing with funding for EURO 2012 and the Presidential Election Law.

¶3. (C) Local media reported that Party of Regions (PoR) refused to vote as agreed to override the presidential veto of the EURO 2012 amendments to the State Budget Law and proposed to postpone discussion of the matter until the September 1 regular Rada session. In apparent retaliation, Bloc Yulia Tymoshchenko (BYuT) then refused to support the override of the President's veto of the amended Presidential Election Law, leaving the two sides at a stalemate with the clock ticking on the one day session.

¶4. (C) At the heart of the issue was who would control the EURO 2012 funds. PoR hoped to place control within the Rada and pressed to have previous Cabinet of Minister earmarks for future funds annulled, thereby opening the door for a new resolution to grant spending authority to the Rada.

BYuT and Tymoshenko Blink

¶5. (SBU) After a hasty suspension of the 10:00 session, faction leaders met to work through these differences. PM Tymoshenko called an emergency Cabinet of Ministers meeting during which the previous government earmark resolution was annulled, as demanded by PoR. The annulment was announced when the Rada reconvened at 14:00, along with agreement by the Cabinet of Ministers to coordinate EURO 2012 spending with the Rada, and a planned Cabinet of Ministers meeting for August 26 on new allocations. The Rada then voted to reject the President's outright veto of the EURO 2012 amendments, and adopted a new resolution tabled by Rada Speaker Lytvyn requiring the Cabinet of Ministers to coordinate spending decisions for EURO 2012 with the Rada.

Potential Impact of Additional Spending

¶6. (SBU) According to the EURO 2012 amendments to the State Budget Law, the National Bank of Ukraine (NBU) will need to transfer 9.8 billion UAH of profits in order to avoid issuing new Treasury bills, which would push the National Bank further into debt. (Note: these are funds the NBU anticipates it will have in profit by year end, in addition to 4 billion UAH already transferred in the first quarter of calendar 2009. End note.) Ministry of Finance senior economist Volodymyr Parnyuk told us that such a move will be inflationary. The IMF previously expressed similar concerns to us about such a plan and its potential negative effects on the budget deficit and inflationary pressures.

President's Concerns About Election Law Categorically Rejected

¶7. (C) The second item of business was the President's veto of amendments to the Presidential Election Law. Along with his veto, the President submitted 23 pages of objections and proposed changes to the amended law, focusing on his concerns that the approved legislation would compromise the integrity and diminish the transparency of the 2010 Presidential elections. After unceremoniously and without deliberation rejecting each of the President's individual points, the Rada voted categorically to overturn the President's veto and approve the legislation as amended.

¶8. (C) In addition to the President's objections, the

KYIV 00001438 002 OF 002

amendments also drew criticism from the NGO community after their July passage (reftel). Of greatest concern are changes that limit the scope and timing of, and access to, court appeals; make it easier to exclude NGO election observers; and increase the financial requirements for candidates.

¶9. (C) Yushchenko has vowed to take the amended law to the Constitutional Court. It is unclear whether the Court will choose to consider only a few of the new amendments or all of them, and how this will affect the election process. The Court must finish its deliberations no later than mid-October to allow for even the newly-shortened 90-day election campaign. In the meantime, Yushchenko has also vowed to bring the debate to the people of Ukraine, though it is not clear how he intends to do so.

Comment

¶10. (C) The Rada's decision to overturn these vetoes was expected by all, but we note the ability of PoR and BYuT to compromise quickly when necessary. Regrettably, this new-found "team spirit" appears to have been born from political expediency, rather than a desire to legislate effectively, and political convenience may come once again at the expense of Ukraine's economic health - already quite poor - and the transparency of the presidential elections. As noted previously, some of Yushchenko's objections on the election law bear closer scrutiny and may raise valid concerns. Although it appears at first glance that Tymoshenko lost ground in acceding to PoR demands on EURO 2012 financing decisions, coordination with the Rada will likely gain PoR little in reality, as the Budget Committee leadership is as fragmented among the factions there as it is in the main chamber.

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